

GAO

Report to the Chairman
and the Ranking Minority Member,
Committee on Appropriations,
U.S. Senate

September 1997

GOVERNMENT PRINTING OFFICE

Information on September 1996 Major Inventory Reduction





General Government Division

B-277904

September 16, 1997

The Honorable Ted Stevens
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

In addition to providing printing services to the federal government, the Government Printing Office (GPO) provides government publications to the public through its sales program at 24 bookstores across the country; by telephone, fax, and mail order sales at its headquarters in Washington, D.C.; and through consigned sales agents in other agencies. GPO periodically reviews its inventory of publications to determine whether any can be considered excess—i.e., no longer expected to sell—and then disposes of the excess copies. This report responds to your request of July 21, 1997, that we review GPO's procedures involving the management of its inventory of publications that it determines to be excess, particularly its management of a major inventory reduction of excess publications that took place in September 1996.

Specifically, our objectives were to determine the facts surrounding the September 1996 inventory reduction: whether it followed existing policies and procedures, and how 3,258 copies of The Senate 1789-1989, a four-volume set written by Senator Byrd, were destroyed as part of that reduction.

We obtained the information for this report from GPO's policies and procedures manuals, inventory and financial records, interviews with agency and contractor personnel, and observations at GPO's warehouse in Laurel, Maryland. Our review was conducted in July and August 1997 in accordance with generally accepted government auditing standards. A more detailed discussion of our scope and methodology is contained in appendix I. On September 5, 1997, we provided a draft of this report to the Public Printer for review and comment. GPO's comments are discussed at the end of this letter and included in appendix IV.

Results in Brief

When for the first time in 15 years a potential financial loss was identified in GPO's sales program in June 1996, the Superintendent of Documents, who heads the sales program, initiated several actions intended to improve the program's long-term financial condition. One action, which was carried

out in September 1996, involved a special identification and disposal of excess publications from its inventory. The Superintendent of Documents said he wanted to dispose of the excess inventory by September 30, 1996, to take the losses in fiscal year 1996, and to do so by identifying and disposing of as much excess inventory as possible in fiscal year 1996 rather than in later years, when it otherwise would have been identified, disposed of, and charged to expense. The Superintendent of Documents also said he had erroneously believed that it was necessary to physically remove excess publications from inventory storage by September 30, 1996, in order to record them as an expense in the financial records for fiscal year 1996.

During the major inventory reduction, GPO identified 2,127 different publications¹ as excess and disposed of them by selling them to a contractor, who subsequently shredded them and sold the scrap paper for recycling. For fiscal year 1996, GPO charged about \$9 million in surplus publications expense in its financial records to account for the publications it excessed and disposed of. Of this, about \$3 million was attributable to the special inventory reduction in September 1996.

Although the Superintendent of Documents had policies and procedures in place to prevent the disposal of publications that the issuing agency still wanted, in June 1996 he instructed his staff to disregard those policies that would interfere with his goal of disposing of as much excess publications inventory as possible by September 30, 1996. Acting under the Superintendent's overall instructions, GPO sales program staff disregarded a policy that has existed since at least 1984, which provides that, before disposing of any excess copies of publications, GPO should offer them to the issuing agencies. Sales program staff also did not follow an established procedure by which several GPO supervisory personnel were to review and approve each publication to be disposed of. Had sales program policies and procedures been followed, the four-volume history by Senator Byrd, The Senate 1789-1989, about which the Senate Historian's Office had expressed interest in receiving excess copies to GPO, would not have been disposed of.

As part of the special inventory reduction, GPO excessed and disposed of 3,258 copies (some of each volume) of the four-volume Senate history, the printing and binding costs of which accounted for about \$83,000 of the \$3 million surplus publications expense. On the basis of the contract GPO

¹Each volume of the four-volume set of the Senate history is considered a separate publication in GPO's inventory.

has with the firm that picked up the excess copies from GPO's warehouse in September 1996, we estimated the scrap value GPO received for these copies to have been about \$600. In August 1997, GPO estimated that the annual storage cost for the copies of the Senate history that were disposed of would be about \$2,500 and that the reprint cost would be about \$210,000.

In explaining its inventory reduction to Senator Byrd, GPO said that it had found that it was generally more cost-effective to dispose of excess inventory and reprint if necessary, than to hold it in storage indefinitely. According to GPO, this statement referred to its publications inventory in general, but it did not specifically refer to the Senate history volumes. In September 1996, GPO had not calculated the cost of holding the Senate history volumes in inventory or of reprinting them. However, GPO officials said that they knew that the reprint costs would substantially exceed the holding costs for these copies, given their relatively high printing and binding costs.

In July 1997, after Senator Byrd inquired about the major inventory reduction, the Superintendent of Documents orally instructed his staff to retain the remaining volumes of the Senate history and, at our recommendation, put this instruction in writing in August 1997. The Superintendent further said that GPO was developing a new integrated processing system that would help designate publications that should not be excessed and, at our recommendation, agreed to develop a systematic process for identifying publications to be held indefinitely for valid reasons, such as historical significance. In addition, in response to another recommendation that we made, he issued a written statement that the policy to offer excess copies to issuing agencies before disposal cannot be waived. To help avoid future misunderstandings on the reduction of inventory, we recommended, and GPO agreed, that a written statement be included in its policies and procedures specifying that excess inventory does not have to be physically disposed of before being charged to surplus publications expense, and that holding cost as a factor should be considered when inventory management specialists develop data on excess inventory. Finally, GPO has sent a legislative proposal to the Joint Committee on Printing that would authorize GPO to donate excess publications to schools or similar institutions. GPO does not now have such authority, and this prevents GPO from donating its excess publications.

Background

GPO was established in 1861 to (1) assist Congress and federal agencies in the production and replication of information products and services, and (2) provide the public with government information products and services. GPO provides printing services to all three branches of government—either by producing work in-house or by procuring it from commercial printers. Information dissemination is accomplished through GPO's Superintendent of Documents, who is to provide public access to government information through (1) the sale of publications; (2) distribution of publications to depository and international exchange libraries, to those recipients designated by law, and for agencies on a reimbursable basis; and (3) compilation of catalogs and indexes containing complete and authoritative descriptions of government publications.

The public printing and documents chapters of title 44 of the U. S. Code require GPO to fulfill the printing needs of the federal government and distribute government publications to the public. GPO's activities are financed through a revolving fund, which is reimbursed by payments from client agencies and sales of government publications, and transfers from the Congressional Printing and Binding Appropriation and the Salaries and Expenses Appropriation of the Superintendent of Documents. These annual appropriations are to reimburse GPO for costs incurred while performing congressional work and fulfilling statutory requirements associated with the distribution of government publications. Reimbursements from these appropriations to the revolving fund are recorded as revenues. The sales program operates within the revolving fund and is expected to recover its costs from its sales. According to GPO, the sales program does not receive any direct appropriation.

GPO is headed by the Public Printer, who is nominated by the President and confirmed by the Senate. The sales program is led by the Superintendent of Documents, who reports directly to the Public Printer. The sales program provides the public the opportunity to purchase government publications and subscriptions at GPO's 24 bookstores across the country; through telephone, fax, and mail orders; and through consigned sales agents at other agencies.² Within the Superintendent of Documents' staff is the Documents Sales Service, which includes staff in the Sales Management Division and Documents Control Branch. Other key players in the sales program include Customer Services, whose printing specialists

²Two of the more popular publications are the Budget of the United States Government and the Occupational Outlook Handbook; some of the more popular subscriptions are the Code of Federal Regulations, Commerce Business Daily, and the Federal Register. Even though GPO's September 1996 inventory reduction included subscriptions, our review involved only publications, although the numbers of publications excessed and their costs cited include both.

serve as liaisons with the issuing agencies until the publications are produced, and the Office of the Comptroller, which keeps the financial records, including inventory. For more detail on GPO's organizational makeup, see appendix II.

Once a publication is printed and enters the sales program, the Documents Control Branch, within the Sales Management Division, maintains inventory control, determines its continued salability, and makes reprinting and disposal decisions. Working with the issuing agency, Sales Management Division staff establish a life cycle for each publication that represents the period during which sales demand is expected. According to GPO, the average life cycle for a publication in its inventory is now about 12 months.

As of September 1996, the sales program carried 13,268 publications in its inventory, valued at about \$12.8 million based on printing and binding costs.³ The sales program did not report a loss between fiscal years 1981 and 1995. For fiscal year 1996, however, the sales program's expenses of \$79.4 million exceeded revenues of \$70.5 million, for a net loss of \$8.9 million. As of June 1997, the sales program was showing a loss of about \$537,000 for fiscal year 1997.

GPO Completed a Major Inventory Reduction in 1996

In May 1996, financial projections indicated that the sales program expected a substantial loss for fiscal year 1996, the first such loss in 15 years. These projections were based on information that indicated that revenue was down and expenses were up for several reasons, including declining sales, the effect of the government shutdown at the beginning of fiscal year 1996, competition from other government sales programs, increasing use of free electronic publications, and a substantial increase in charges to surplus publications expense (i.e., the printing and binding costs of publications in GPO's inventory that are expected to be unsalable).

As a result of the projected loss for fiscal year 1996, the Superintendent of Documents tasked a management team with developing an action plan to increase revenue and reduce expenses, with the objective of returning the sales program to full cost-recovery in fiscal year 1997. The plan, dated September 1996, originally contained 44 individual projects and was later amended to include 2 more projects. One original project was a special effort, over and above GPO's routine process for removing excess

³When the sales program acquires publications for sale, it pays only the incremental printing and binding costs for the copies it acquires. All start-up costs are borne by the issuing agency.

publications, to move aggressively to reduce the inventory of surplus publications before the new fiscal year began on October 1, 1996. Such a reduction would increase the surplus publications expense for fiscal year 1996 but was expected to decrease those expenses in fiscal year 1997 and subsequent years. In other words, the sales program's losses for fiscal year 1996 would be greater, but GPO officials hoped that this would result in the program breaking even or better for fiscal year 1997 and beyond.

The inventory reduction began in early September 1996, even before the action plan was issued, with a deadline for completion of September 30, 1996. The September 1996 inventory reduction involved 2,127 publications that had a printing and binding cost of about \$3 million, which was about one-third of the surplus publications expense GPO charged for publications it excessed and disposed of in fiscal year 1996. (See appendix III for examples of the publications disposed of in September 1996.) GPO's records and our discussions with GPO warehouse and contractor personnel indicate that the publications inventory that was excessed during the reduction was sold (for less than 3 cents per pound) to a scrap contractor, who was required by contractual terms to shred and recycle it rather than resell the individual publications.⁴

Policies and Procedures Existed for Managing the Disposal of Excess Inventory

The Superintendent of Documents had issued policies and procedures for determining excess, obsolete, damaged, and destroyed information products and for managing inventory. Superintendent of Documents Policy No. 38, dated May 28, 1984, provides that publication inventories are to be reviewed quarterly to determine the quantities that are to be retained and those that are excess. This policy applies to inventories that are managed by headquarters staff. A separate procedure (Superintendent of Documents Policy No. 38.6) applies to inventories in GPO's bookstores.⁵

Under the existing policies and procedures, inventory management specialists (IMS) in the Documents Control Branch are to review quarterly the amount of inventory for the publications they manage. This review is conducted to identify whether the inventory should be reduced based on the sales history and projected life cycle of the publication. As part of the Superintendent of Documents' existing policy, which was issued by the current Public Printer when he was the Superintendent of Documents,

⁴By law, GPO has implicit authority to dispose of excess publications as scrap. GPO also has adopted a policy to offer excess publications to issuing agencies at no cost.

⁵According to GPO, its 24 bookstores keep a minimal stock of any particular publication on hand; therefore, we did not include policies and procedures that apply to GPO's bookstores in our review.

once an IMS determines the number (if any) of copies of a publication that are excess, he or she is to call the issuing agency to determine whether it wants the extra copies.

As part of the inventory review process for publications of high dollar value or with a large number of copies on hand, the IMS then is to complete Form 3880, which includes such information as the estimated printing and binding cost of the publication, anticipated sales, total copies sold, and whether the issuing agency wants any of the excess copies. (The form does not include the holding cost of retaining the copies in inventory.) This completed form is to be sent to a Documents Survey Board consisting of the Director of Documents Sales Service, the Chief of the Sales Management Division, and the Chief of the Documents Control Branch. If the Survey Board approves the form, the IMS then must prepare a notice to be sent to GPO's warehouse in Laurel, Maryland. At the warehouse, the excessed stock (i.e., stock not wanted by the issuing agency) is to be identified and moved to a separate area for periodic pick up by a contractor, who is required by the contract to shred the documents and have them recycled. The contractor is not permitted to resell the documents other than for recycling.

Existing Policies and Procedures Were Not Followed

During the major reduction in September 1996, the Superintendent of Documents' staff followed his orders and disregarded policy and normal procedures in order to reduce the inventory of excess publications before October 1, 1996. When the Superintendent of Documents realized that the sales program expected a substantial loss, he told his staff in a June 1996 memorandum that, while developing an action plan to increase revenue and reduce expenses, they should: "Ignore politics and external influences. Disregard current policies and practices that inhibit creativity and impede change." According to the Superintendent of Documents, his instruction to ignore politics and external influences referred to frequent requests from issuing agencies to have more copies of publications in the sales inventory than GPO believes can be sold. The Superintendent further said that he subsequently verbally instructed his staff to begin the inventory reduction before the action plan was approved and told them to disregard policies that would interfere with the removal of as much excess inventory by September 30, 1996, as possible.

In order to maximize charges to surplus publications expense in fiscal year 1996, the Superintendent of Documents and GPO's Comptroller advised IMS staff to focus their attention on excessing publications that had high

printing and binding costs, large quantities in inventory, and low sales volume. Also, during this major reduction, IMS decisions on what publications to excess did not receive the normal management review, and IMS staff did not call the issuing agencies to see whether they wanted the excess copies of their publications.

Superintendent of Documents staff told us that they disregarded policy because they would not have had enough time to contact the issuing agencies and receive answers by September 30. According to these staff and Superintendent of Documents management officials, it would have been very difficult to contact all of the agencies involved with the 2,127 publications being excessed and to wait for their various responses concerning whether they wanted the excess copies. According to GPO, this response period usually takes about 4 weeks, and GPO officials did not believe that the agencies would be able to respond appropriately if given only a few days.

According to Documents Control Branch staff, this disregard of policy resulted from the Superintendent's June 1996 memorandum and his oral instructions to his staff regarding the formulation of the action plan to increase revenue and reduce expenses. The IMS responsible for handling congressional publications, and his supervisor in September 1996, acknowledged discussing between themselves whether they should follow GPO's policy to offer excess publications to issuing agencies. They said that they felt they had the authority to dispose of the publications without notifying the issuing agencies because of time constraints and instructions from the Superintendent of Documents to disregard policies. They said that, given the Superintendent of Documents' instructions, they saw no need to tell management officials above them that they were disregarding this policy.

The IMS responsible for handling congressional publications told us that he made the decision on which publications to excess based primarily on the criteria he was given—high printing and binding costs, large quantity in inventory, and low projected sales. According to the IMS, his decisions on which publications to dispose of in September 1996 were not reviewed or approved by the Documents Survey Board, as generally would be required. The publications selected for excessing by the IMS were approved by his supervisor, but no one else's approval was noted on the inventory records.

The Superintendent of Documents said that he was responsible for policies not being followed and for the inventory reductions that took

place at the end of fiscal year 1996. The Superintendent of Documents said that he wanted to dispose of the excess inventory by September 30, 1996, in order to take the losses in fiscal year 1996. He also said that he wanted to identify and dispose of as much excess inventory as possible in fiscal year 1996 rather than in later years, when it otherwise would have been identified, disposed of, and charged to expense. According to the Superintendent of Documents, he instructed staff to dispose of the excess inventory by September 30, 1996, because he mistakenly believed that the inventory had to be physically removed from GPO property before surplus publications expense could be charged.

However, the inventory identified as excess by the IMS staff did not have to be disposed of by September 30, 1996, in order that the surplus publications expense could be charged to fiscal year 1996. Neither generally accepted accounting principles nor GPO's own accounting procedures require physically removing the excessed publications from GPO property before surplus publications expense can be charged. Surplus publications expense can be charged whenever GPO staff determine that inventory is obsolete or unsalable. In fact, GPO had another major inventory stock reduction in fiscal year 1981, and at that time, according to GPO's Comptroller, certain publications had been identified as excess but had not yet been disposed of when they were shown as an expense in GPO's financial records.

Both GPO's Comptroller and the Superintendent of Documents agree that the latter misunderstood how publications expenses were handled in GPO's accounting system at the time of the major inventory reduction in 1996. They both said that, at that time, GPO had no written guidance or instructions stating that excess inventory does not have to be physically removed from GPO before surplus publications expense can be charged.

In July 1997, the Public Printer told us that, while he was notified that a major inventory reduction would be taking place in 1996, he was not made aware of the details of the reduction. He said that he did not know that the policy to offer excess publications to the issuing agency, which he had instituted when he was Superintendent of Documents, was not followed in the September 1996 reduction.

The Four-Volume History Was Excessed During the Inventory Reduction

As mentioned earlier, according to the IMS responsible for handling congressional publications, the decisions concerning which publications to excess were primarily based on the criteria of high printing and binding

costs, large quantity in inventory, and projected sales. The IMS said that the Senate history volumes met these criteria for disposal. According to the IMS, he made his decision concerning the number of copies of the Senate history to retain based on an estimate of future sales, using a 10-year estimated life cycle for each of the four volumes. According to GPO's records, the 10-year life cycle was developed when the volumes were first published, as a result of discussions involving the Senate Historian, House Historian, Joint Committee on Printing staff, and staff from GPO's Documents Sales Service group.

GPO records show that, of the inventory that was excessed, 3,258 copies, involving some of each of the four volumes written by Senator Byrd, were disposed of. The 3,258 copies were about 10 percent of the total number originally printed of the four volumes (32,386 at a total cost of \$1,572,291). The printing and binding cost of the 3,258 excessed copies was about \$83,000. The scrap value received for the shredded copies was about \$600. See table 1 for more detail.

Table 1: Scrap Value for Excessed Copies of the Senate History Volumes

Volume	Number of copies excessed	Weight of each copy (in ounces)	Scrap value per ounce (in dollars) ^a	Scrap value of copies excessed (in dollars)
I	1,188	125	\$0.0017343	\$257.54
II	918	99	0.0017343	157.62
III	660	98	0.0017343	112.17
IV	492	89	0.0017343	75.94
Total	3,258			\$603.27

^aThe scrap value contract was for \$0.02775 per pound, which converts to \$0.0017343 per ounce.

Source: GAO calculation based on GPO records.

According to GPO records, GPO retained 1,134 total copies of the Senate history, which GPO inventory management staff kept in inventory based on the estimated quantity needed to meet a sales demand calculated on what they initially agreed with representatives from the Senate Historian's Office and others to be the life cycle for the publications. This life cycle was to be 10 years from the dates the volumes were published; their publication dates were 1988 (volume I), 1991 (volume II), 1994 (volume III), and 1993 (volume IV).

Table 2 contains a breakdown of the disposition of the Senate history volumes, including the number on hand as of July 1997.

Table 2: Inventory Transactions for the Senate History Volumes

Volume	Copies acquired for sale from 2/89 to 9/96	Copies sold from 2/89 to 9/96	Other distributions ^a	Copies exceeded in 9/96	On hand as of 9/96	On hand as of 7/97 ^b
I	4,397	2,356	504	1,188	349	211
II	2,454	720	504	918	312	224
III	1,000	167	0	660	173	91
IV	1,000	208	0	492	300	236
Total	8,851	3,451	1,008	3,258	1,134	762

^aThese copies were given to the Senate Historian's Office in October 1991.

^bSixty copies of each of the volumes were distributed without charge to the U. S. Information Agency at the request of the Senate Historian's Office in June 1997 and thus are not reflected in the inventory as of July 1997.

Source: GPO Office of the Comptroller and inventory control records.

A representative from GPO's Congressional Printing Management Division in Customer Services told us that, in June 1996, he told the IMS responsible for handling congressional publications that the Senate Historian's Office wanted any excess Senate history volumes that GPO might have. The responsible IMS said he knew that in the past the Senate Historian's Office had inquired about the status of the Senate history volumes on several occasions and that, while he recalled the previous inquiries by the Senate Historian's Office, he did not recall being told in June 1996 that the Senate Historian's Office wanted any excess copies. He said that he proceeded with the inventory reduction based on the Superintendent of Documents' instructions to disregard policies and ignore politics. Inventory records showed that he identified the copies as excess on September 6, 1996, and September 9, 1996. Warehouse records show that the copies were removed from the warehouse shelves for pickup by the scrap contractor on September 10, 1996, and September 12, 1996.

All of the Superintendent of Documents staff we interviewed who were involved in the September 1996 inventory reduction said that no specific discussion of the Senate history volumes occurred during the September 1996 reduction. The Public Printer said he did not know at the time that the Senate history volumes were among those being excessed and that, if he had, those books would not have been disposed of.

Actions Taken or in Process Should Help GPO Prevent a Recurrence of Inappropriate Inventory Reduction

GPO has taken action or has actions in process that are aimed at helping to prevent a recurrence of a situation in which excess publications are disposed of without regard to established policies and procedures. While GPO's initial actions could have helped prevent a recurrence, they did not appear to address all of the underlying causes of the problems associated with the September 1996 major inventory reduction. During the course of our review, we identified and brought to GPO's attention several additional actions that we believed would address those causes. As discussed below, GPO officials agreed and took additional steps to prevent a recurrence.

Designating the Senate History Volumes for Indefinite Availability for Sale

In May 6, 1997, and July 11, 1997, letters to Senator Byrd, the Public Printer said that GPO had made an error in disposing of the Senate history volumes and that all four volumes, because of their historical significance, would remain in print and available through the sales program indefinitely. According to the Superintendent of Documents, this action was carried out through oral instructions to his staff in July 1997. In response to these oral instructions, the IMS responsible for handling congressional publications wrote a note saying not to dispose of these volumes without top management's approval and attached the note to the inventory control cards he maintained for these volumes. At our recommendation, the Superintendent of Documents put his oral instructions in writing in August 1997.

In response to our inquiries, both the Public Printer and the Superintendent said that some publications, such as the Constitution and the Senate history volumes, should be kept indefinitely because of their historical significance. The Superintendent said that GPO did not have a systematic process for identifying or designating such publications but that, in response to our recommendation, GPO would develop a formal system for identifying publications that should remain in inventory indefinitely. In addition, he said that GPO was already developing a new inventory management system that would allow publications that are to be held indefinitely to be designated as such once they have been identified. The Superintendent of Documents also acknowledged that his lack of awareness about the planned disposal of the Senate history volumes contributed to their being excessed.

Strengthening Policy on Offering Excess Publications to Issuing Agencies

On July 22, 1997, the Superintendent of Documents sent a memorandum to his staff stating that no further exceptions should be made to the current policy on excess, obsolete, damaged, and destroyed information products and that “excess stocks will be offered to the issuing agency.” On July 23, 1997, the Superintendent of Documents asked his staff to revise his formal policy document dated May 28, 1984, to address the problems that arose in connection with the September 1996 inventory reduction. According to the Superintendent of Documents, this revised policy will provide that excess inventory should be charged to surplus publications expense when it is determined to be excess. The excess inventory is then to be held in the warehouse for a reasonable period while issuing agencies are contacted to see if they want the excess publications. Under the Superintendent’s revised procedures, the policy of offering issuing agencies excess copies before their disposal cannot be waived.

We pointed out that we saw no written statement in GPO’s policies, procedures, or guidance that specifically said that excess inventory does not have to be physically removed from GPO’s warehouse before it can be charged to surplus publications expense. Both the Superintendent of Documents and the Comptroller agreed that the lack of such a written statement may have contributed to the misunderstanding that took place in 1996. In August 1997, GPO’s Comptroller prepared such a statement.

Another action GPO has had in process for some time that could also help prevent a recurrence of the problems of the September 1996 reduction is the development of a new Integrated Processing System. The Superintendent of Documents expects this new system, which GPO plans to implement in October 1997, to provide his office with more flexibility in tracking inventory and better information for making decisions to excess publications. According to the Superintendent of Documents, the new system will (1) allow GPO to designate inventory as excess without physically relocating it in the warehouse, and (2) include a comment box where the IMS can indicate that a publication is not to be excessed or make other appropriate notations about its disposition. Until the new system is implemented, notations concerning holding copies indefinitely must be made on records that are maintained manually.

Finally, another dilemma GPO has faced in disposing of excess inventory is the lack of authority to donate excess publications to schools or similar institutions. Under existing law and policy, GPO’s current options for disposing of excess publications are to offer them to issuing agencies at no cost or to dispose of them as scrap. GPO is also precluded by statute and

regulation from offering publications to the public at discount prices except to those who buy 100 or more copies of the same publication or to book dealers who agree to resell the books at GPO's prices—in which case, GPO can only offer a maximum discount of 25 percent. To address this problem, in May 1997, as part of its recommended revision of title 44 of the U. S. Code, GPO forwarded a proposal to the Joint Committee on Printing that would authorize the donation of excess publications to schools or similar institutions if the copies are not wanted by the issuing agency.

Aligning GPO's Procedure for Considering Holding Costs of Publications With Its Policy

In a May 6, 1997, letter to Senator Byrd, the Public Printer said that, on the basis of a study GPO had done, it was more cost-effective to maintain an adequate inventory of sales publications based on their projected life cycle and to reprint if necessary, than to hold excess copies of publications in inventory. According to the Superintendent of Documents, who drafted the May 6 letter for the Public Printer, the study cited in the letter referred to data supplied by the GPO's Comptroller in 1996. These data showed that, overall, GPO's inventory of excess publications was growing and was contributing to increasing charges to surplus publications expense. These increased charges were, in turn, contributing to a worsening financial situation for the sales program.

To help remedy this problem, according to the Superintendent of Documents, the Comptroller recommended that the Superintendent identify as much excess inventory as possible in fiscal year 1996 to improve the sales program's long-term financial situation. According to the Superintendent of Documents, the statement in the May 6 letter pertained to the typical publication, which he said has a printing and binding cost of about \$2 per copy; it did not specifically pertain to the Senate history volumes, which had a printing and binding cost of \$19 to \$35 per copy.

In this regard, we noted that the printing and binding cost of the 3,258 copies of the Senate history volumes disposed of was about \$83,000, and that GPO's estimated annual storage costs attributable to these copies was about \$2,500. These figures can be compared to GPO's estimated reprinting cost of about \$210,000 should GPO reprint the copies disposed of, which it has agreed to do if necessary.

During our review of GPO's inventory management records, we also noted that Form 3880, which IMS staff use to make recommendations and supervisory personnel use to review actions on obsolete or excess inventory, does not provide for inclusion of data on storage or holding

costs for publications. This omission is inconsistent with a memorandum, dated January 4, 1985, from the Chief, Sales Management Division, to Documents Control Branch staff, which directed that reasonable life cycles should be consistent with economic analysis of the following factors: expected trend, reprint costs, expected revision date, and holding costs. The memorandum also stated that, when reviewing records to identify excess or consider extension of the life cycle, the following factors should be considered: continued marketability, projected revenue, and estimated holding costs.

We discussed this inconsistency with the Superintendent of Documents in August 1997. He said storage or holding costs are usually not significant, but he recognized that they should be considered in making decisions on excess inventory. He agreed to modify Form 3880 to incorporate consideration of such costs.

Conclusion

To achieve its financial objective, GPO did not have to disregard policy and procedures for notifying the issuing agencies of excess publications. Because of the erroneous belief of the Superintendent of Documents, who heads GPO's sales program, that GPO had to physically remove excess publications from the GPO warehouse by September 30, 1996, in order to record them as an expense for fiscal year 1996, and because of his express instruction to disregard policies and procedures, GPO staff disposed of about 2,100 different publications without first contacting the issuing agencies of those publications. As a result, 3,258 copies of the Senate history were destroyed, even though the Senate Historian's Office had told a GPO representative that it wanted any excess copies. GPO has taken or plans to take actions that, if effectively implemented, should prevent this situation from recurring.

We made various recommendations during the course of our work that GPO agreed to and either implemented the corrective action or is in the process of doing so. Thus, we are making no further recommendations.

Agency Comments

On September 5, 1997, we provided the Public Printer with a draft of this report for comment. We received his written comments, included in their entirety in appendix IV, on September 10, 1997. The Public Printer said that the report fairly represents the events as they occurred during the September 1996 inventory reduction. He also said that actions have been and are being taken to ensure that no sales publications will be disposed

of in the future without strict adherence to applicable GPO policies and procedures.

We are sending copies of this report to the Public Printer of the Government Printing Office and the Chairman and the Vice Chairman of the Joint Committee on Printing. We will make copies available to others upon request. Major contributors to this report are listed in appendix V. If you have any questions concerning this report, please call me on (202) 512-4232.



Bernard L. Ungar
Director, Government Business
Operations Issues

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Abbreviations

GPO	Government Printing Office
IMS	Inventory Management Specialist

Objectives, Scope, and Methodology

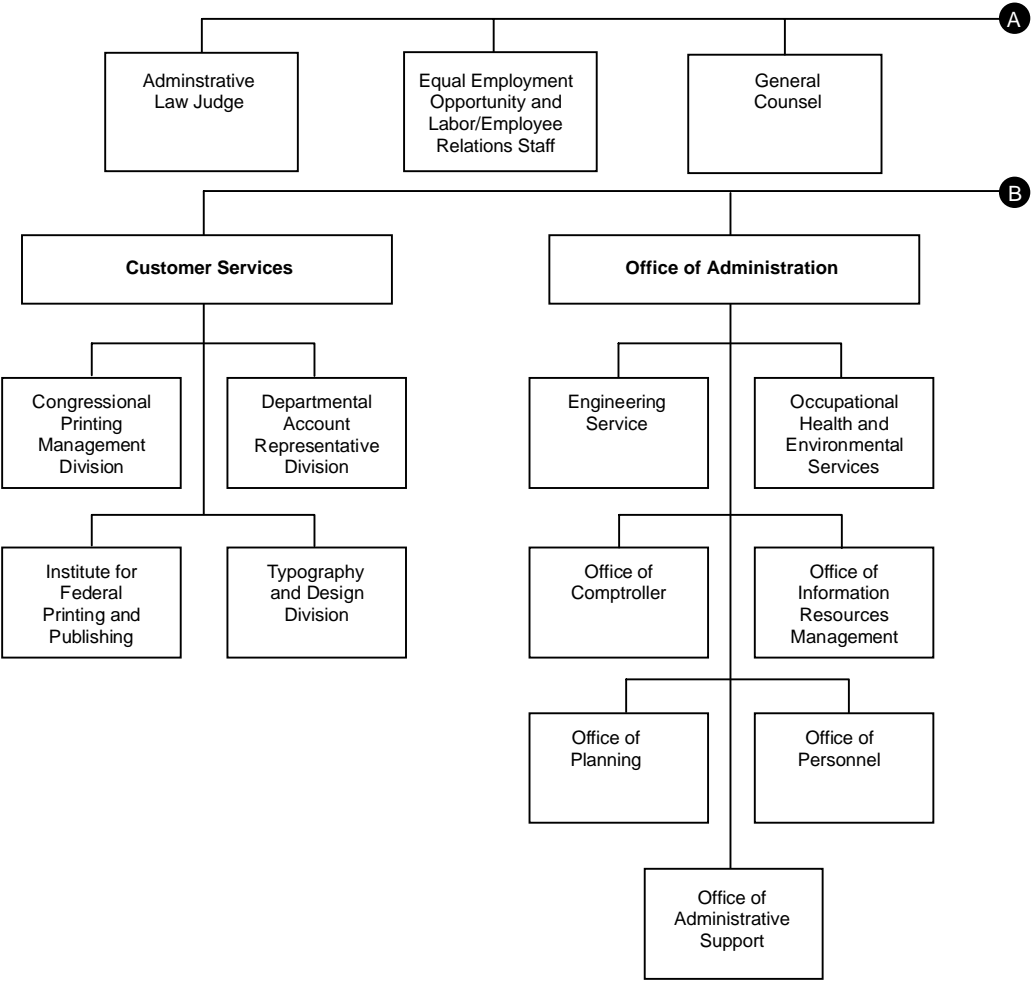
As agreed with your offices, our objectives were to determine the facts surrounding the September 1996 inventory reduction; whether it followed existing policies and procedures; and the fate of the 3,258 copies of The Senate 1789-1989, a four-volume set written by Senator Byrd, that were destroyed as part of that reduction.

In order to obtain information on GPO's sales program and the inventory reduction held in September 1996, we reviewed pertinent documentation, such as GPO's inventory control records, policies and procedures, memoranda, and financial records and reports. We interviewed the Public Printer, the Superintendent of Documents and his staff who were involved in the reduction, the Comptroller and his staff who are responsible for the financial records, and staff in the Congressional Printing and Management Division who serve as the liaison with the Senate Historian's Office for Senate publications, including Senator Byrd's books. We visited GPO's Laurel, Maryland, warehouse where excessed publications are disposed of; reviewed its inventory disposition records; and interviewed a representative of GPO's contractor that had picked up GPO's excessed publications from its Laurel warehouse in September 1996. In addition, we reviewed GPO's authority to donate surplus books. We coordinated our review with GPO's Office of Inspector General.

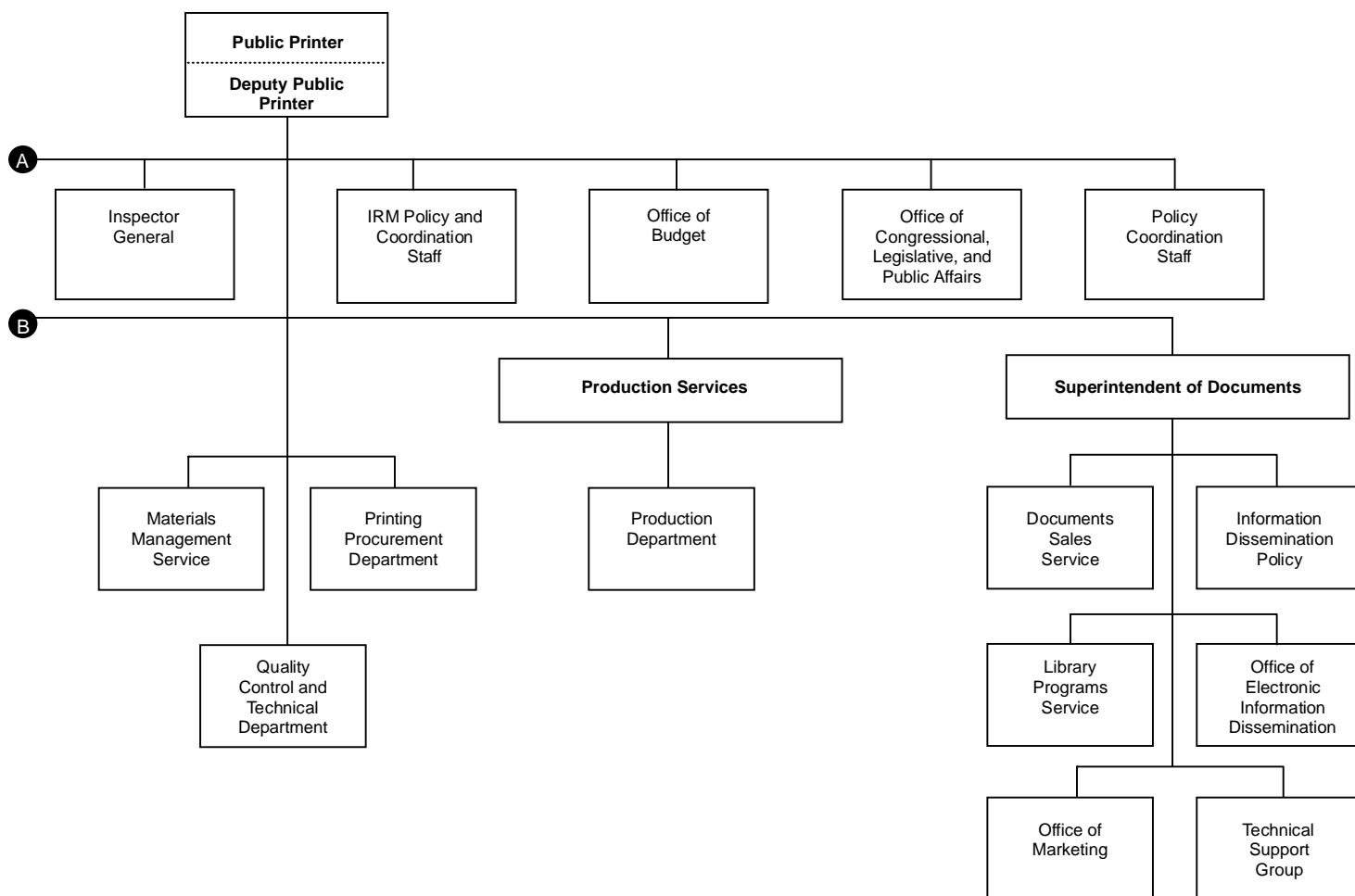
The representative from GPO's contractor told us that his company did not maintain any records that would specifically show that the 3,258 Senate history copies were shredded. Therefore, we had to rely on GPO's records and interviews with GPO staff and the contractor's representative to determine what happened to the 3,258 Senate history copies that were excessed. Further, we did not verify GPO's computerized inventory or financial records or do actual counts of the remaining stock inventory of the Senate history volumes at the Laurel warehouse.

Appendix I
Objectives, Scope, and Methodology

Government Printing Office Organization Chart



Appendix II
Government Printing Office Organization
Chart



Examples of Publications GPO Disposed of in September 1996

In addition to the Senate history volumes, we selected the following examples of excessed publications to provide a mix of publications from both the legislative and executive branches and, in some cases, to reflect publications having high dollar values.

Biographical Directory of the United States Congress, 1774-1989, Bicentennial Edition

Black Americans in Congress

CPH3: 1990 Census Tract Maps, Washington, D.C.-MD-VA

Creating a Government That Works Better and Costs Less

Dictionary of Occupational Titles, Revised 4th Edition

Foreign Relations of the U.S. 1961-1963, Vol.3 Vietnam, Jan. to Aug. 1963

National Performance Review - Department of Defense

Our Flag

Senate Historical Almanac

Soviet Union: Area Handbook

Standard Industrial Classification Manual, 1987

The Coast Guard and the Greenland Patrol

The Senate 1789-1989, Addresses on the History of the United States Senate, Volume One, Bicentennial Edition

The Senate 1789-1989, Addresses on the History of the United States Senate, Volume Two, Bicentennial Edition

The Senate 1789-1989, Classic Speeches 1830-1993, Volume Three, Bicentennial Edition

The Senate 1789-1989, Historical Statistics 1789-1992, Volume Four, Bicentennial Edition

The U.S. Capitol - A Brief Architectural History

Understanding Federal Training and Employment Programs

U.S. Government Purchasing and Sales Directory, Revised 1994

Comments From the Government Printing Office



United States Government Printing Office
Washington, DC 20401

OFFICE OF THE PUBLIC PRINTER

September 10, 1997

Mr. Bernard L. Ungar
Director, Government Business
Operations Issues
General Government Division
U.S. General Accounting Office
Washington, DC 20548

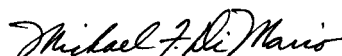
Dear Mr. Ungar:

Thank you for giving me the opportunity to comment on the General Accounting Office (GAO) draft report, "Government Printing Office: Information on September 1996 Major Inventory Reduction."

In my view and the view of other Government Printing Office (GPO) officials responsible for or otherwise familiar with the September 1996 sales inventory reduction, the report fairly represents the events as they occurred. The inventory reduction would not have taken place as it did had existing policies and procedures been followed.

As the draft report states, a variety of GPO actions have been taken or are currently in process to ensure that, in the future, no sales publications will be disposed of without strict adherence to applicable policies and procedures. In particular, because of their historical significance, certain publications, such as the four volumes of *The Senate 1789-1989*, will remain available through the Documents Sales Program indefinitely. I appreciate the suggestions provided by GAO staff to strengthen these policies and procedures.

Sincerely,


MICHAEL F. DiMARIO
Public Printer

Major Contributors to This Report

General Government Division

John S. Baldwin, Sr., Assistant Director
Michael W. Jarvis, Evaluator-in-Charge
Kiki Theodoropoulos, Senior Evaluator (Communications Analyst)

Accounting and Information Management Division

Robert W. Gramling, Director, Corporate Audits and Standards

Office of General Counsel

Victor B. Goddard, Senior Attorney

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